February 10, 2011

Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT  06856-5116

File Reference No:  EITF090H2

Dear FASB Technical Director:

Draffin & Tucker, LLP is a public accounting firm that provides attest and consulting services to over 150 healthcare entities throughout the southeastern United States. We appreciate the opportunity to comment on the Financial Accounting Standards Board’s (FASB’s) Proposed Accounting Standards Update (Update), Health Care Entities (Topic 954), Presentation and Disclosure of Net Revenue, Provisions for Bad Debts and the Allowance for Doubtful Accounts.

The following are responses to the questions raised in the proposed Update:

Question 1:  The amendments in this proposed Update would require a health care entity to change the presentation of its statement of operations by reclassifying the provision for bad debts from an operating expense to a reduction from revenue (net of contractual allowances and discounts). Do you agree with this conclusion? Why or why not?

Yes, we agree with the reclassification of the provision for bad debts from an operating expense to a reduction in revenue. We further suggest that the provision for bad debts related to revenues accounted for under Topic 954 not be separately identified on the statement of operations. The following are reasons for our position.

There are several key factors related to revenue recognition that are unique in the healthcare industry. One is that competition does not necessarily dictate the charge structure at individual organizations, rather charges are typically established considering the third party payor arrangements that may vary from entity to entity. This results in inconsistencies in prices for services between healthcare entities. This in turn affects the amount of contractual allowances, uninsured/underinsured discounts,
charity care and bad debts recorded by various entities. In addition, certain regulatory requirements (EMTALA, IRS, etc.), limit the discretion entities have in determining their customer base. Therefore a certain amount of uncollected revenue is largely out of the organization’s control. Finally, there are significant differences in policies for determining charity care, contractual allowances, uninsured/underinsured discounts and the provision for bad debts between entities. There are differences in the levels of charity care offered, the resources allocated to pursuing information from patients regarding their financial status, and the aggressiveness of organizations to pursue necessary documentation to comply with charity care policies. In addition, the organization is constrained to the financial information that the patient is willing to provide which ultimately impacts the organizations ability to correctly classify any provision/write-off. These factors along with differences in allowance methodologies all serve to impact the comparability of the provision for bad debts, contractual adjustments, uninsured/underinsured discounts, and charity care between entities.

By reclassifying the provision for bad debts from an operating expense to a reduction in revenue, the net revenues reported in the statement of operations will better reflect the revenues the entity expects to collect and will enhance comparability between reporting periods and between entities.

Question 2: The Task Force consensus described in this proposed Update was reached in the context of discussing paragraph 954-605-25-3 relating to patient fee-for-service revenue (that is, revenue earned in transactions in which services provided are billed to patients or third-party payors). This was the issue that was initially raised to the Task Force for consideration. However, the final consensus was not limited to only patient service revenue. Accordingly, please answer the following questions relating to the scope of proposed guidance:

a. Should the requirements of the proposed amendments be applicable to all revenue that is accounted for under Topic 954 (that is, patient service revenue, premium revenue, and resident service revenue)?

Yes, we believe the Update should be applied to all revenue accounted for under Topic 954.

There are different reimbursement methodologies and credit considerations for certain healthcare related services other than patient services which tend to allow for greater accuracy in determining the difference between bad debts and other contractual allowances or charity. However, we believe that reporting these provisions for bad debts related to a component of the entity’s core business differently would overcomplicate the process and not provide additional value to the financial statement user. Therefore, we believe that the Update should be applied to all revenues accounted for under Topic 954.
b. If the answer to 2(a) is no, what types of revenue should the proposed amendments apply to (for example, should the requirements of the proposed amendments be limited only to patient and resident service revenue)?

As a result of our response to question 2a., this question is not applicable.

c. Some diversified entities provide health care services as well as significant non-patient related products (such as pharmaceutical products) or services (such as billing and staffing, clinical information or education services). For such entities, should the requirements of the proposed amendments apply to all activities of the entity or only apply to the health care service revenue that is accounted for under Topic 954?

We believe that provisions for bad debts arising from ancillary services not accounted for under topic 954 should remain classified as an operating expense consistent with other industries.

Question 3: Do you anticipate the need for significant changes in the accounting systems or information gathering to implement the proposed amendments? If yes, please specify the aspect(s) of the proposal that would cause the significant change (for example, a specific disclosure or part of a disclosure requirement).

We polled our client base regarding these issues and the consensus is that implementing the Update will not result in a significant burden to most organizations. Many expressed the fact that the benefits of changing the presentation of the statement of operations more than outweigh the burdens. Although the changes in the presentation of the statement of operations should not present a significant challenge, some organizations may have difficulties applying the new disclosure requirements as the detail allowance information may not be readily available by payor.

Question 4: How much time do you believe would be necessary to efficiently implement the proposed amendments?

Although the Update is not anticipated to require significant changes to systems, information gathering will be required. Therefore, we recommend the allowance of adequate time for constituents to prepare and begin gathering the necessary information. Some constituents may have all information readily available and desire to adopt as soon as possible, therefore we recommend allowing entities to early implement the Update.
Thank you for the opportunity to comment on the amendments in the proposed Update. If you have any questions on the matters discussed in this letter, please do not hesitate to contact R. Wes Sternenberg at (229)883-7878 for further discussion or clarification.

Sincerely,

[Signature]

DRAFFIN & TUCKER, LLP